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Eileen Tutt  
Special Advisor to the Secretary  
California Environmental Protection Agency  
1001 I Street  
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Sacramento, CA 95812  
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Comments: CalEPA Climate Action Team Draft Report to the Governor and Legislature, December 8, 2005.

Dear Ms. Tutt:

BP West Coast Products LLC appreciates the opportunity to offer comments on the CalEPA Climate Action Team Draft Report to the Governor and Legislature, dated December 8, 2005 (Draft Report). BP West Coast Products LLC is part of BP plc (BP). BP is the single, global brand formed by the combination of the former British Petroleum, Amoco, ARCO, and Burmah Castrol. BP's major operations in the United States consist of oil and gas exploration, production, refining, chemicals, commercial products, gas trading and solar energy. In California BP has more than 6,000 employees, assets of \$3.5 billion and we market gasoline under the ARCO brand.

We commend the CalEPA CAT (CCAT) effort to develop a consistent and scientifically sound approach to this issue. In our review of the Draft Report, we have found a number of program elements that are consistent with what BP believes are necessary for an effective program that meets both the environmental goals while providing the flexibility for continued growth of California's economy. There are other elements that we believe should be reconsidered or modified as they may be overly aggressive in terms of achieving sustainable results. Our comments and suggestions concerning these issues are set forth below.

### Mandatory Reporting

As we indicated in previous comments to CCAT, no effort to reduce GHG emissions can succeed without the accurate measuring and monitoring of emissions. A mandatory reporting program for GHG emissions is an essential first step in introducing a GHG emissions program in California. We also feel that there is value at having the GHG emissions data collected at the state level because standardization of calculation methodologies, reporting protocols and core elements are crucial in the ability to link federal, state and international registries. We strongly advocate consistency in the reporting requirements between registries to include linkages to other countries as well as US state and other federal initiatives. BP would also like to reiterate that we continue to support the California Climate Action Registry (Registry) as the central repository for California GHG emissions. The Registry protocols have become widely recognized standards for measuring and certifying GHG emissions. If the reported emissions are to be used at any time for emissions trading, independent verification is essential to ensure accurate emissions reports and credibility in the program.

### Credit for Early Action

It is extremely important to recognize early action for the purposes of providing the right incentive structure to generate 1<sup>st</sup> mover actions. BP advocates credit for early action with respect to verifiable results to reduce GHG emissions prior to a specific baseline year. The Draft Report states that companies that are supportive of the Governor's targets have registered emissions and reductions with the Registry. Early reductions may not have been adequately quantified or represented by the Registry's database if the reductions took place prior to the baseline year. This must be taken into consideration in any mandated climate change program.

### Public Goods Charge on Transportation Fuels

One of the implementation options proposed in the Draft Report is the use of a "public goods charge" for transportation fuels (PGC) as a means to reduce GHG emissions from transportation sources. In previous comments, BP has expressed its concerns about carbon taxes. BP prefers market mechanisms over taxes because they provide certainty of GHG reduction and cost effectiveness. There are 3 areas in particular where we have concerns regarding the proposed public goods charge on transportation fuels.

- Level of the tax  
BP believes that a fuel tax of just a few cents per gallon will not materially 1) change consumer purchasing behaviors, 2) change

driving habits, or 3) reinforce the consumer ownership of emissions. It therefore would not directly reduce GHG emissions.

Higher levels of taxation may cause direct reductions in emissions but may be politically difficult to implement due to economic considerations.

- **Use of Funds Generated**  
The CCAT proposed PGC fuel tax, is a revenue generating mechanism. Therefore, a key issue that must be addressed is how to efficiently use the funds collected to invest in projects that reduce GHG emissions. In order for a tax to be effectively utilized as part of climate program, transparency in how the funds are collected, managed, and spent is critical. There also needs to be a clear rationale for establishing funding levels, identifying the full economic impacts of a PGC, and establishing an equitable process for distributing the funds.
- **California Constitutionality**  
Finally, the California constitutional limitations placed on the use of fuel taxes needs to be addressed. The state constitution establishes boundaries on the use of fuel tax revenues and mandates that the revenues be applied only to transportation sector use. The employment of any transportation fuel PGC needs to adhere to these constitutional limitations.

BP does not support the PGC as currently proposed in the Draft Report as it does not contain sufficient detail to address the concerns discussed above. BP is willing to work with the CCAT on this and other issues as the details of the California climate program evolve.

### Cap & Trade

BP appreciates that the Draft Report contains Cap and Trade as market based program that can be integral to California's strategy to achieve the Governor's GHG reduction goals. It acknowledges some of the inherent limitations in a unilateral program and recommends that a careful analysis of issues like leakage, community impact and linkages to other emerging and existing programs be undertaken before designing and implementing a program. The Draft Report describes three approaches for defining the scope of the cap and trade program: (1) a sector based emissions cap; (2) fossil fuel stationary combustion sources; and (3) a fuels-based carbon cap.

BP believes that the scope of the program should be based on a sector approach, which helps create a level playing field for the included sectors. A combustion-source based system could also be used in combination with a sector approach to capture high emissions sources (e.g. greater than 25 MW equivalent) not included in the covered sectors. Further, BP

supports a downstream point of regulation. The focus of a "cap and trade" program should be at the point where the actions can take place to reduce emissions, i.e. the emitter. A well-designed "cap and trade" system should align regulatory ownership of the emissions allowance with the emitter to facilitate innovation and the search for least-cost solutions via reliance on market forces. This characterizes a "downstream" system, which is a key design feature in all existing emissions trading programs, including US SO<sub>2</sub> & NO<sub>x</sub>, RGGI, and the EU ETS. So, the adoption of this approach in California could leverage this experience and facilitate the eventual integration of the state program into other national, regional, or international regimes, which will enhance market liquidity and system effectiveness.

There are a number of challenges with a trading program based on a fuels-based carbon cap. Aside from the issues resulting from an effective limit on fossil fuels in the state, this approach would hinder interaction with other trading systems and would constrain the ability of market forces to seek emissions-reducing solutions.

Draft Update of a Section in Chapter 8 on Macroeconomic Assessment, posted January 5, 2006.

The Draft Report contains the results from a preliminary assessment of the macro-economic impacts of the CCAT strategies. BP concurs with the necessity for a macro-economic analysis regarding the impacts of the proposed climate policies. To date the reports on the preliminary assessment of the economic models have in our view portrayed an overly optimistic view that all aspects of the climate policies will result in positive economic and environmental outcomes. While we concur there will undoubtedly be significant benefits, BP recognizes that there will be costs associated with the policies that should be equally acknowledged in state policy. In the end, if the most cost-effective strategies are pursued the costs are likely justified by the overall benefits.

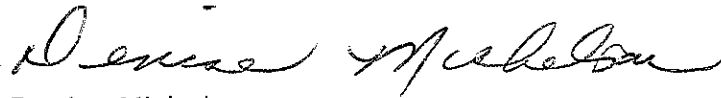
Consistent Policy Development

BP has been very supportive of the CCAT process with the understanding that this will serve as the proposed framework for state level policy on climate actions going forward. A recent action by the CPUC to issue a Draft Decision regarding a proposed GHG Emissions CAP for the state's utilities raises a concern in our view. While we support the idea of a unified policy framework, we are concerned about ad hoc or differential policies from individual agencies. We strongly believe there should be one over-arching authority from which all future climate policies are based regardless of sector.

Closing Remarks

Again, thank you for the opportunity to provide comments. We look forward to continued engagement throughout this process. Please don't hesitate to contact me should you have questions or need additional information.

Sincerely,

A handwritten signature in cursive script, reading "Denise Michelson". The signature is written in black ink and is positioned above the printed name.

Denise Michelson

cc: Alan Lloyd, Secretary, CalEPA  
Anne Baker, Deputy, Secretary CalEPA